

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6711

BILL NUMBER: HB 1846

NOTE PREPARED: Jan 24, 2003

BILL AMENDED:

SUBJECT: Education Tax Credit Pilot Program.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X

X

GENERAL

DEDICATED

FEDERAL

IMPACT: State

Summary of Legislation: The bill provides an Adjusted Gross Income (AGI) Tax refundable credit for the 2004 and 2005 taxable years for qualified elementary and secondary education expenses for dependents who have legal settlement in the Indianapolis Public School Corporation. The bill requires participation in the ISTEP or another approved program for tax credit eligibility. The bill provides that a taxpayer having dependents in both public and nonpublic schools may claim only one credit. For taxpayers having dependents enrolled in a school, the bill establishes the maximum credit for household incomes under \$35,000 at \$2,000 and for household incomes over \$35,000 at \$1,000. For taxpayers having dependents who are excused from school attendance, the bill establishes the maximum credit at \$1,000 per dependent or household. The bill requires the Department of Education to develop a list of programs approved for tax credit purposes and to administer the ISTEP program requirement to certain dependents.

Effective Date: Upon passage; July 1, 2003.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

The Department of Education (DOE) also would incur some administrative expenses relating to additional ISTEP exams. The DOE would be required to develop criteria and establish a list of programs that will qualify for academic instruction outside of a normal schooling. It must also administer ISTEP for students enrolled in non-accredited nonpublic schools and home-schooled children whose parents desire to claim the tax credit. The Department must provide documentation to the parents of these children and must also administer the test at no charge. These expenses presumably could be absorbed by each agency given each agency's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities

in 2004 and 2005 for individual taxpayers incurring certain educational expenses for dependents who have legal settlement in the Indianapolis Public School (IPS) Corporation. The revenue loss due to this bill could potentially total \$7.7 M in FY 2005 and \$7.8 M in FY 2006.

Background: This bill establishes an individual AGI tax credit for certain educational expenses incurred in 2004 and 2005 for K-12-level dependent students in public and nonpublic schools and for those of equivalent grade level who are home-schooled; provided the dependent students must have legal settlement in the Indianapolis Public School (IPS) Corporation. The tax credit is refundable. Qualified educational expenses are defined as fees for academic instruction, textbooks, instructional materials, and computer hardware and software. Qualified expenses for students enrolled in a nonpublic school also include tuition and transportation costs, while fees for transfer tuition are included for public school children. Expenses for textbooks, instructional materials, computers, and software are limited to \$200. However, parents of home-schooled children would be allowed a maximum of \$1,000 for textbooks and instructional materials. For taxpayers whose household income is \$35,000 or less, the credit is limited to the lesser of the following: (1) the amount of qualified educational expenses; (2) \$1,000 per dependent; or (3) \$2,000 per household. For taxpayers whose household income exceeds \$35,000, the credit is limited to the lesser of the following: (1) the amount of qualified expenses; (2) \$500 per dependent; or (3) \$1,000 per household. For taxpayers who provide home-schooling for their children, the maximum credit is \$1,000 per household regardless of income.

Since the credit is effective only in tax year 2004 and 2005, the fiscal impact would occur in FY 2005 and FY 2006. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimated impact of the credit is based on DOE data for 2002. Enrollment in IPS is approximately 44,300. The data also suggests that there about 4,600 nonpublic school students and 1,300 home-school students within the IPS boundaries. The impacts assume no increase in public and nonpublic school enrollment, but assume 20% annual growth in home-school students. These growth rates are based on observed trends in statewide totals since 1997. The estimates also account for students receiving free textbooks, potential response to alternative programs, and for potential taxpayer response to each of the tax credits.

The estimates assume an average of two school children per family. The distribution of households above and below the \$35,000 threshold is based on the income distribution of taxpayers claiming exemptions for dependent children on 1999 and 2000 individual AGI Tax returns. This data suggests that about 44.5% of the households claiming this credit have incomes of \$35,000 or less. These taxpayers would therefore be eligible for the higher maximum credit amount.

Penalty Provision: The bill establishes a Class A misdemeanor for any individual who violates certain provisions relating to ISTEP tests. If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Explanation of Local Expenditures: *Penalty Provision:* A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Penalty Provision:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Department of State Revenue, Department of Education.

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: Minnesota Department of Revenue, Department of Education, Department of State Revenue.

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